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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

lf  
4-9-02

**FACING PAGE**

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

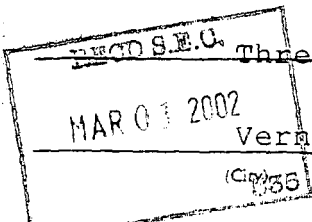
REPORT FOR THE PERIOD BEGINNING 01/01/2001 AND ENDING 12/31/2001  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Shepherd Financial Group, LLC

|                   |
|-------------------|
| OFFICIAL USE ONLY |
| FIRM ID. NO.      |

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)



Three Hawthorn Parkway, Suite 220  
(No. and Street)  
Vernon Hills Illinois 60061  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Robert W. Linehan (847) 680-1100  
(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Mowery & Schoenfeld, LLC  
(Name - if individual, state last, first, middle name)  
Three Hawthorn Parkway, Suite 150, Vernon Hills, IL 60061  
(Address) (City) (State) (Zip Code)

- CHECK ONE:
- ☒ Certified Public Accountant
  - ☐ Public Accountant
  - ☐ Accountant not resident in United States or any of its possessions.

**PROCESSED**  
**P APR 24 2002**

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| FOR OFFICIAL USE ONLY |
| THOMSON FINANCIAL     |

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

## OATH OR AFFIRMATION

I, Robert W. Linehan, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Shepherd Financial Group, LLC, as of December 31, 2001, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Anita J. Kanaby  
Notary Public

Robert W. Linehan  
Signature

Chief Financial Officer

Title

This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Report on internal control structure required by rule 17a-5 of the Securities Exchange Commission.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**SHEPHERD FINANCIAL GROUP, LLC**

**REPORT ON INTERNAL CONTROL STRUCTURE**

**DECEMBER 31, 2001**

**Required by rule 17a-5 of the Securities Exchange Commission**

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## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE**

TO THE MEMBERS OF

SHEPHERD FINANCIAL GROUP, LLC

In planning and performing our audit of the financial statements and supplemental schedules of Shepherd Financial Group, LLC (the "Company") for the year ended December 31, 2001, we considered its internal control structure, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g)(1) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications and comparisons.
2. Recordation of differences required by rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of the Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition,

and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2001, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and should not be used for any other purpose.

*Mowery & Schoenfeld, LLC*  
Mowery & Schoenfeld, LLC

February 16, 2002  
Vernon Hills, Illinois

**SHEPHERD FINANCIAL GROUP, LLC**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2001 AND 2000**

**(See report of independent auditors)**



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Mowery & Schoenfeld LLC  
Three Hawthorn Parkway  
Suite 150  
Vernon Hills, Illinois 60061  
P 847 247-8959  
F 847 247-8960

## **REPORT OF INDEPENDENT AUDITORS**

TO THE MEMBERS OF

SHEPHERD FINANCIAL GROUP, LLC

We have audited the accompanying statements of financial condition of Shepherd Financial Group, LLC as of December 31, 2001 and 2000, and the related statements of operations and members' equity and cash flows for the years then ended, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shepherd Financial Group, LLC as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on Schedule 1 is presented for the purpose of additional analysis and is not required as part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Mowery & Schoenfeld, LLC*  
Mowery & Schoenfeld, LLC

February 16, 2002  
Vernon Hills, Illinois

**SHEPHERD FINANCIAL GROUP, LLC**

**STATEMENTS OF FINANCIAL CONDITION**

**DECEMBER 31, 2001 AND 2000**

| <hr/>  |                          |                          |
|--|--------------------------|--------------------------|
|  | <b><u>ASSETS</u></b>     |                          |
|  | <b><u>2001</u></b>       | <b><u>2000</u></b>       |
| Cash   | \$ 19,938                | \$ 159,780               |
| Cash deposits with clearing organizations (Note 5) | 50,286                   | 54,348                   |
| Commission receivable                              | 16,438                   | 35,977                   |
| Miscellaneous receivables                          | 19,978                   | 1,465                    |
| Prepaid expenses                                   | 12,151                   | 12,319                   |
| Investment in Redwood Partners, L.P. (Note 6)      | -                        | 41,493                   |
| Property and equipment, net (Note 7)               | 35,114                   | 43,659                   |
|  | <b><u>\$ 153,905</u></b> | <b><u>\$ 349,041</u></b> |
| <br><b><u>LIABILITIES AND MEMBERS' EQUITY</u></b>  |                          |                          |
| <b>LIABILITIES</b>                                 |                          |                          |
| Accounts payable and accrued expenses              | \$ 2,197                 | \$ 10,408                |
| Accrued broker commissions and wages               | 6,245                    | 13,623                   |
|  | <u>8,442</u>             | <u>24,031</u>            |
| <br><b>MEMBERS' EQUITY</b>                         |                          |                          |
|  | <u>145,463</u>           | <u>325,010</u>           |
|  | <b><u>\$ 153,905</u></b> | <b><u>\$ 349,041</u></b> |

The accompanying notes are an integral part of these financial statements.



**SHEPHERD FINANCIAL GROUP, LLC**

**STATEMENTS OF OPERATIONS AND MEMBERS' EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

|  | <b><u>2001</u></b>       | <b><u>2000</u></b>       |
|--|--------------------------|--------------------------|
| <b>REVENUES</b>                                  |                          |                          |
| Commissions                                      | \$ 343,033               | \$ 678,653               |
| Principal transactions                           | 2,230                    | 69,460                   |
| Syndication revenues, net of associated expenses | 59,821                   | 785,245                  |
| Interest and dividends                           | 19,271                   | 32,439                   |
| Unrealized gain/(loss) on investment             | 10,982                   | 8,609                    |
| Miscellaneous                                    | 3,000                    | 8,649                    |
| Total revenues                                   | <u>438,337</u>           | <u>1,583,055</u>         |
| <b>EXPENSES</b>                                  |                          |                          |
| Employee compensation and benefits (Note 9)      | 432,013                  | 1,046,574                |
| Clearing charges                                 | 46,447                   | 115,433                  |
| Professional fees                                | 48,879                   | 33,841                   |
| Exchange access fees                             | 14,184                   | 21,698                   |
| Occupancy expenses                               | 171,464                  | 236,326                  |
| Depreciation expense                             | 8,545                    | 12,038                   |
| Dues and assessments                             | 15,329                   | 17,847                   |
| Sales promotion                                  | 12,244                   | 9,241                    |
| Insurance  | 14,731                   | 9,020                    |
| Postage and delivery                             | 9,937                    | 11,384                   |
| Travel   | 8,700                    | 8,540                    |
| Charitable contributions                         | -                        | 4,450                    |
| Investment services                              | 5,925                    | 7,046                    |
| Outside services                                 | 15,043                   | -                        |
| Computer technician fees                         | 5,319                    | 5,011                    |
| Meals  | 3,975                    | 3,887                    |
| Payroll service fees                             | 2,195                    | 1,970                    |
| Other expenses                                   | 3,954                    | 5,355                    |
| Total operating expenses                         | <u>818,884</u>           | <u>1,549,661</u>         |
| Net income (loss)                                | (380,547)                | 33,394                   |
| <b>Members' equity, beginning of year</b>        | 325,010                  | 316,616                  |
| Member contributions                             | 201,000                  | -                        |
| Member distributions                             | <u>-</u>                 | <u>(25,000)</u>          |
| <b>Members' equity, end of year</b>              | <u><u>\$ 145,463</u></u> | <u><u>\$ 325,010</u></u> |

The accompanying notes are an integral part of these financial statements.

**SHEPHERD FINANCIAL GROUP, LLC**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

|  | <u>2001</u>      | <u>2000</u>       |
|--|------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                  |                   |
| Net income (loss)  | \$ (380,547)     | \$ 33,394         |
| Adjustments to reconcile net income (loss) to net cash<br>used in operating activities |                  |                   |
| Depreciation   | 8,545            | 12,038            |
| Unrealized (gain) loss on investments  | (10,982)         | (8,609)           |
| Changes in operating assets and liabilities:   |                  |                   |
| Deposits with clearing organization  | 4,062            | 4,787             |
| Commission receivable  | 19,539           | 28,712            |
| Other assets   | (18,344)         | 6,700             |
| Accounts payable and accrued expenses  | (8,211)          | (40,378)          |
| Accrued broker commissions and wages   | (7,378)          | (101,982)         |
| Net cash used in operating activities  | <u>(393,316)</u> | <u>(65,338)</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                  |                   |
| Proceeds from sale of investment in Redwood Partners                                   | <u>52,474</u>    | <u>(9,444)</u>    |
| Net cash provided by (used in) investing activities                                    | <u>52,474</u>    | <u>(9,444)</u>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                  |                   |
| Member contributions   | 201,000          | -                 |
| Member distributions   | <u>-</u>         | <u>(25,000)</u>   |
| Net cash provided by (used in) financing activities                                    | <u>201,000</u>   | <u>(25,000)</u>   |
| <b>NET DECREASE IN CASH</b>  | (139,842)        | (99,782)          |
| Cash, beginning of year  | <u>159,780</u>   | <u>259,562</u>    |
| Cash, end of year  | <u>\$ 19,938</u> | <u>\$ 159,780</u> |

The accompanying notes are an integral part of these financial statements.

**SHEPHERD FINANCIAL GROUP, LLC**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2001 AND 2000**

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**NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS**

Shepherd Financial Group, LLC (the "Company") is an Illinois limited liability company. The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC) and the National Association of Securities Dealers (NASD). All trades are cleared on a fully disclosed basis. The Company is managed by the principal member, who holds approximately 99% of the outstanding units. Pursuant to the Operating Agreement, the Company will expire on December 31, 2039.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The Company is engaged in a single line of business as a securities broker-dealer, which comprises several classes of services including principal transactions and syndication activities. A summary of the primary business activities and significant accounting policies is presented below.

**Securities Transactions**

Proprietary securities transactions in regular way trades are recorded on a trade date, as if they had settled. Profits and losses arising from all securities transactions are recorded on a trade date basis. Customers' securities transactions are reported on a settlement date basis with related commission income and expenses recorded on a trade date basis.

**Investments**

Marketable securities are valued at market value, and securities not readily marketable if any, are valued at fair value as determined by management.

**Syndication Revenues**

Syndication revenues include underwriting fees and commissions, net of syndicate expenses, arising from private placement security offerings in which the Company participates.

**Commissions**

Commissions and related clearing expenses are recorded on a trade date basis as securities transactions occur.

**Property and Equipment**

Property and equipment are recorded at cost and are depreciated using straight-line and accelerated methods over estimated useful lives. Expenditures for major repairs that extend the useful lives of property and equipment are capitalized. Expenditures for normal maintenance and repairs are charged to expense as incurred.

**SHEPHERD FINANCIAL GROUP, LLC**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2001 AND 2000**

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**Income Taxes**

The Company is organized as a limited liability company and as such, the income or loss of the Company flows through to the individual members who include their proportionate share of the Company's income or loss in their taxable income. Accordingly, no provision for taxes has been recorded.

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures at the financial statement date. Accordingly, actual amounts could differ.

**Cash Equivalents**

The Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days that are not held for sale in the ordinary course of business.

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**NOTE 3 - CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2001 and 2000, the Company had net capital of \$78,220 and \$212,824, respectively, which was in excess of the required net capital of \$50,000 in 2001 by \$28,220 and \$100,000 in 2000 by \$112,824, respectively. The Company's net capital ratio was .108 to 1 and .113 to 1 as of December 31, 2001 and 2000, respectively.

**NOTE 4 - EXEMPTION FROM RULE 15c3-3**

The Company does not collect any customer funds. The Company does not hold any securities for its customers and it clears all transactions with a clearing broker or dealer. Accordingly, the Company meets the exemptive provisions of Rule 15c3-3.

**NOTE 5 - DEPOSITS WITH CLEARING ORGANIZATION**

The Company is required to maintain a minimum cash balance of \$50,000 with their clearing organization, which is used to settle customer trades. These funds are not available for other purposes.

**SHEPHERD FINANCIAL GROUP, LLC**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2001 AND 2000**

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**NOTE 6 – INVESTMENT IN REDWOOD PARTNERS, L.P.**

The Company owned a general partnership interest in Redwood Partners, L.P. until June 30, 2001, at which time the investment was transferred to the principal member of the Company for \$52,479. Underlying investments of Redwood Partners had included marketable securities within the banking and insurance industries, certificates of deposits and insurance annuities. The investment increased and decreased based on changes in the value of the underlying investments, interest and dividends received, management fees earned, incentive fees earned and administrative expenses incurred.

**NOTE 7 – PROPERTY AND EQUIPMENT, NET**

Property and equipment is comprised of the following as of December 31:

|                          | <b><u>2001</u></b> | <b><u>2000</u></b> |
|--------------------------|--------------------|--------------------|
| Furniture and equipment  | \$ 78,076          | \$ 78,076          |
| Leasehold improvements   | 21,033             | 21,033             |
|                          | <u>99,109</u>      | <u>99,109</u>      |
| Accumulated depreciation | 63,995             | 55,450             |
|                          | <u>\$ 35,114</u>   | <u>\$ 43,659</u>   |

**NOTE 8 - LEASE COMMITMENTS**

The Company leases office space under an operating lease agreement that expires March 31, 2002. Monthly rent approximates \$6,800. The Company also leases certain office equipment on a year-to-year basis.

Rent expense approximated \$79,400 and \$184,000 for the years ended December 31, 2001 and 2000 respectively.

**NOTE 9 - EMPLOYEE BENEFIT PLAN**

The Company sponsors a salary reduction simplified employee pension plan (SARSEP) under Section 408(k)(6) of the Internal Revenue Code. Under provisions of the Plan, eligible participants can elect to contribute a portion of their salary on a pre-tax basis. Employer contributions are discretionary and totaled \$3,584 in 2001. Employee and employer contributions into the Plan vest with the participants immediately.

**SHEPHERD FINANCIAL GROUP, LLC**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2001 AND 2000**

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**NOTE 10 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

In the normal course of business, the Company's activities with customers involve the execution, settlement, and financing of various securities transactions. These activities may expose the Company to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Company executes transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event that the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily through its clearing organizations and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary.

**NOTE 11 - CONCENTRATIONS OF CREDIT RISK**

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers and clearing organizations. In the event that the counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

The Company's cash accounts are held at federally insured financial institutions. The balances were not in excess of the federally insured limits as of December 31, 2001, however they were in excess by \$59,780 at December 31, 2000.

**SUPPLEMENTARY INFORMATION**

**Pursuant to Rule 17a-5 of the  
Securities Exchange Act of 1934**

**SHEPHERD FINANCIAL GROUP, LLC****COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1**  
**OF THE SECURITIES EXCHANGE COMMISSION****DECEMBER 31, 2001 AND 2000**

|   | <u>2001</u>      | <u>2000</u>       |
|---|------------------|-------------------|
| Net Capital   |                  |                   |
| Total equity  | \$ 145,463       | \$ 325,010        |
| Deductions and/or charges                           |                  |                   |
| Nonallowable assets                                 |                  |                   |
| Investment in Redwood Partners, L.P.                | -                | 41,493            |
| Miscellaneous receivables                           | 19,978           | 1,465             |
| Property and equipment                              | 35,114           | 43,659            |
| Commissions receivable (+30 days)                   | -                | 13,250            |
| Other assets  | 12,151           | 12,319            |
| Net capital before haircuts on securities positions | 78,220           | 212,824           |
| Haircut on securities                               |                  |                   |
| Trading and investment securities                   | -                | -                 |
| Net capital   | <u>\$ 78,220</u> | <u>\$ 212,824</u> |
| Aggregate indebtedness                              | <u>\$ 8,442</u>  | <u>\$ 24,031</u>  |
| Computation of net capital requirement              |                  |                   |
| Net capital requirement for the Company             | <u>\$ 50,000</u> | <u>\$ 100,000</u> |
| Excess net capital at 1,500%                        | <u>\$ 28,220</u> | <u>\$ 112,824</u> |
| Excess net capital at 1,000%                        | <u>\$ 28,220</u> | <u>\$ 112,824</u> |
| Ratio of aggregate indebtedness to net capital      | <u>0.108</u>     | <u>0.113</u>      |

**Reconciliation with the Company's computation**  
**( Included in Part II of Form 17A-5 as of December 31, 2001 and 2000)**

|  |                  |                   |
|--|------------------|-------------------|
| Net capital, as reported in the Company's            |                  |                   |
| Part IIA Quarterly 17a-5(a) FOCUS report (unaudited) | \$ 78,186        | \$ 218,627        |
| Net audit adjustments                                | 34               | (5,803)           |
| Net capital per above                                | <u>\$ 78,220</u> | <u>\$ 212,824</u> |